

## Message Text

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PAGE 01 BRASIL 01798 01 OF 02 272010Z

73

ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 AGR-05 L-03 NSC-05 SS-15

STR-04 CEA-01 PA-01 PRS-01 /088 W

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R 271925Z FEB 76

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 4252

INFO AMCONSUL SAO PAULO

AMCONSUL RIO DE JANEIRO

AMCONSUL PORTO ALEGRE

LIMITED OFFICIAL USE SECTION 1 OF 2 BRASILIA 1798

PASS AGRICULTURE

E.O. 11652: N/A

TAGS: EAGR, ETRD, BR

SUBJECT: BRASILIAN SOY PRODUCTS EXPORTS

1. SUMMARY: EDITORIALS IN LEADING NEWSPAPERS ARE BEGINNING TO APPEAR EXPRESSING CONCERN ABOUT BRAZIL'S ABILITY TO MARKET ITS 1976 EXPORTABLE SURPLUS OF SOME AGRICULTURAL COMMODITIES, MAINLY THE SOY COMPLEX. BRAZIL NEEDS TO EARN AS MUCH FOREIGN EXCHANGE AS POSSIBLE IN VIEW OF NEGATIVE BALANCE OF PAYMENTS AND IF WORLD MARKET PRICES WOULD DROP, A FIRST RECOURSE MEET WORLD MARKET PRICES WOULD BE TO WAIVE PART OR ALL OF ICM TAX. THIS TAX HOWEVER IS IMPORTANT SOURCE OF REVENUE FOR STATE GOVERNMENTS. SUGGESTIONS ARE MADE TO LET FEDERAL GOVERNMENT IN SUCH EVENT COMPENSATE STATES FOR LOSS OF ICM TAX WHICH BRINGS INTO PLAY WHOLE GAMUT OF FEDEERAL/ STATES RELATIONSHIP. MUNICIPAL ELECTIONS IN 1976 AND CONGRESSIONAL ELECTIONS IN 1978 MAY SHOW INFLUENCE OF MERGING NEW GROUP OF VOTERS IN FARM AREAS WHICH WILL BASE  
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PAGE 02 BRASIL 01798 01 OF 02 272010Z

ITS VOTE STRONGLY ON FARM INCOME (PRICES OF FARM PRODUCTS)

AT TIME OF ELECTIONS. END SUMMARY

2. THE PRESTIGIOUS PAPER O ESTADO DE SAO PAULO PRINTED  
THE FOLLOWING EDITORIAL IN ITS ISSUE OF FEBRUARY 24:

3. (BEGIN QUOTE) AGRICULTURAL EXPORTS IN THE HANDS OF  
GOD: BRAZILIAN AGRICULTURAL EXPORTS IN 1976 HAVE TRIGGERED  
A BIBLICAL CONFLICT. ON ONE SIDE ARE THE PARTISANS OF THE  
SERMON ON THE MOUNT STRATEGY: DO NOT WORRY, GOD WILL  
PROVIDE THE NECESSARY. ON THE OTHER, THE SUPPORTERS OF THE  
PARABLE OF THE TALENTS: SEIZE YOUR OPPORTUNITIES IF YOU  
DESIRE SALVATION. IT TURNS OUT THAT THE FIRST GROUP HAS  
BEEN GETTING THE BETTER OF THE LATTER IN ALL GOVERNMENT  
ECONOMIC POLICY COUNCILS.

4. ALTHOUGH WE ARE CLOSE TO THE END OF FEBRUARY, THERE IS  
NO INDICATION THAT THE FEDERAL GOVERNMENT WILL SOON ADOPT NEW  
MEASURES IN SUPPORT OF FARM EXPORTS. IN THE MAIN CENTERS OF  
DECISION MAKING NOTHING APPEARS TO HAVE BEEN DONE SO FAR EXCEPT  
TO WATCH THE INTERNATIONAL PRICES AND THE UNTIL NOW COMFORTING  
TREND WHICH DOES NOT SEEM TO PRESENT ANY MAJOR DIFFICULTIES.  
IF ONE COMMODITY OR ANOTHER BECOMES A MATTER OF CONCERN THIS  
WILL BE MERELY BAD LUCK ON OUR PART. IF THE TAXES IMPOSED ON  
FARM EXPORTS START HINDERING OUR EXPORT PRODUCTS FROM REACHING  
FOREIGN MARKETS WE MUST BE PATIENT.

5. IN THE CHAMBERS OF EXPERTS, BOTH IN GOVERNMENT AND PRIVATE  
SECTORS, THERE EXISTS SERIOUS PREOCCUPATION ABOUT THE PERF-  
ORMANCE OF FARM PRODUCTS SALES. THE POSSIBILITY OF ADVERSE  
PRICE DEVELOPMENTS IN THE WORLD MARKETS FOR SOME COMMODITIES  
ONLY PARTIALLY EXPLAINS SUCH CONCERN. EVEN THOUGH THIS  
YEAR'S CROPS--VERY GOOD IN SOME CASES--MAY BE SOLD WITHOUT  
ENCOUNTERING MAJOR PROBLEMS (THIS IS UNCERTAIN SO FAR),  
NO ONE WOULD LOSE IF THE GOVERNMENT WOULD PREPARE ITSELF NOW  
TO FACE ANY FUTURE EMERGENCY, AND FURTHERMORE TO GUARANTEE  
THE PRODUCER THE RETURN AND STIMULUS REQUIRED TO ENCOURAGE HIS  
FUTURE PRODUCTION.

6. THE EXPANSION OF BRAZILIAN FARM EXPORTS OVER THE PAST YEARS  
IN ITSELF CALLS FOR A NEW ATTITUDE BY THE GOVERNMENT. AS  
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PAGE 03 BRASIL 01798 01 OF 02 272010Z

BRAZIL'S AGRICULTURE BECOMES A REGULAR SUPPLIER IN INTERNATIONAL  
MARKETS, INSTEAD OF BEING ONLY A CASUAL SUPPLIER OF SEVERAL  
IMPORTANT PRODUCTS, THE RULES OF THE HFTENXAEH NGEM#

NEW PRODUCTS ARE GROWING INTO EXPORT CHANNELS (RICE, FOR  
INSTANCE), AND IN THE CASE OF SOYBEANS BRAZIL IS ALREADY A  
COMPETITIVE SUPPLIER OF IMPORTANT MARKETS. LAST YEAR BRAZIL  
SUPPLIED THE EUROPEAN COMMUNITY WITH ABOUT ONE HALF OF ITS TOTAL

SOYBEAN IMPORTS, CUTTING INTO A MARKET THAT FORMERLY BELONGED TO THE US. NEVERTHELESS, THERE IS NO REASON TO WASTE TIME APPLAUDING OURSELVES. FROM NOW ON BRAZILIAN SOYBEAN EXPORTS WILL CONSTITUTE A NEW PROBLEM, FOR EACH ADDITIONAL SHIPMENT WILL MEAN MORE DIFFICULTY IN HOLDING (NOT ONLY EXPANDING) MARKETS CONQUERED BEFORE.

7. IN THE US, WHICH IS RESPONSIBLE FOR 50 PERCENT OF TOTAL WORLD FARM EXPORTS, POLICIES IN SUPPORT OF FARMERS HAVE NOT STOPPED. TO THE CONTRARY, NEW COMMODITIES ARE MARKETING UNDER PL-480 PROTECTION, WHICH GUARANTEES ADEQUATE RETURNS TO FARMERS AND FACILITATES THE ENTRY OF AMERICAN FARM PRODUCTS INTO VARIOUS MARKETS. WHILE THE AMERICAN SOYBEAN ASSOCIATION FOR THE FIRST TIME ASKS ITS GOVERNMENT FOR THE SUPPORT OF THE COMMODITY CREDIT CORPORATION--AND GETS IT--ALLEGING AMONG OTHER THINGS THAT BRAZILIAN SOYBEANS ARE SUBSIDIZED, BRAZILIAN EXPORTS CONTINUE TO BE BURDENED WITH A 13 PERCENT ICM TAX AND A 2 PERCENT FUNRURAL TAX (RURAL SOCIAL SECURITY TAX). THE AMERICAN WILLINGNESS TO SUPPORT CONTRASTS SHARPLY WITH THE INDIFFERENCE SHOWN BY THOSE CONTROLLING ECONOMIC POLICIES IN BRAZIL.

NOTE BY OC/T: # AS RECEIVED.

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PAGE 01 BRASIL 01798 02 OF 02 272037Z

73

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LIMITED OFFICIAL USE SECTION 2 OF 2 BRASILIA 1798

8. THE QUESTION IS NOT SIMPLY KNOWING WHETHER OR NOT ALL STATES CAN AFFORD ICM TAX EXEMPTION. IT IS OBVIOUS THAT THEY CANNOT, AT LEAST FULLY. COULD THERE NOT BE, HOWEVER, ANY OTHER SOLUTION? COULD NOT THE GOVERNMENT IN ANY WAY COOPERATE BY REDUCING TAXES? THE STATE OF SAO PAULO WHICH FINDS ITSELF IN A PRIVILEGED POSITION AS TO SOURCES OF REVENUE CAN STAND THE BURDEN OF SUCH COSTS. IT WOULD BE A RELIEF TO ALL, IF THE ECONOMIC AUTHORITIES PUBLICLY EXPRESSED AT LEAST THEIR WILLINGNESS TO DISCUSS THE PROBLEM AND TRY TO SOLVE IT. IT DOES NOT MEAN SIMPLY EXTENDING FACILITIES IN INSTANCES OF EMERGENCY, BUT IT DOES MEAN THE INTRODUCTION OF A NEW POLICY OF SUPPORT TO FARM EXPORTS. THESE EXPORTS STILL REPRESENT THE MAJOR SOURCE OF EXCHANGE TO BRAZIL AND PLAY AN IMPORTANT ROLE IN THE MULTIPLICATION AND DISTRIBUTION OF INCOME.

9. IT IS WELL KNOWN THAT IN THE US, AGRICULTURAL EXPORTS WERE ONE OF THE MAIN FACTORS RESPONSIBLE FOR ELIMINATING THE DEFICIT AND CREATING A BIG BALANCE OF TRADE SURPLUS. IN BRAZIL, FOR BETTER REASONS, THE TASK OF ACHIEVING A NEW EQUILIBRIUM IN OUR BALANCE OF TRADE MUST BE SOUGHT IN THE FIRST PLACE IN LIMITED OFFICIAL USE

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PAGE 02 BRASIL 01798 02 OF 02 272037Z

THE FARM SECTOR. THIS SHOULD SUFFICE TO MAKE THE AUTHORITIES, WHEN CONTEMPLATING AGRICULTURAL INTERESTS, TAKE INTO ACCOUNT LESS OF THE LILIES IN THE FIELD AND MORE OF FOREIGN MARKET CONDITIONS. (END QUOTE)

10. HEREUNDER FOLLOWS PART OF AN ARTICLE IN THE GAZETA MERCANTIL OF FEBRUARY 16 (WRITTEN BY ITS WASHINGTON CORRESPONDENT, ANTONIO PIMENTA NEVES).

11. WHEN THE TRADE ACT WAS FINALLY APPROVED BY PRES. FORD IN JANUARY OF 1975, THE PROVISION (SECTION 301 WHICH COVERS UNFAIR TRADE PRACTICES) FRIGHTENED THE EUROPEANS MORE THAN THE THIRD WORLD. IN FACT, THE LATTER HAS FEW OPPORTUNITIES TO STRONGLY COMPETE WITH THE U.S.

12. HOWEVER, IT (INVOCATION OF SECTION 301) MAY HAPPEN AND THE SUBJECT OF SPECULATIONS IN CERTAIN CIRCLES IN WASHINGTON IS BRAZILIAN SOYBEAN OIL. THE US IS VIEWING WITH APPREHENSION NOT ONLY THE BURGEONING OF BRAZIL'S SOYBEAN PRODUCTION, WHICH EQUALS ONE FOURTH OF THE US'S PRODUCTION THIS YEAR, BUT ALSO THE PENETRATION OF BRAZILIAN SOYBEAN OIL INTO MARKETS TRADITIONALLY DOMINATED BY THE US, SUCH AS JAPAN AND THE EUROPEAN COMMUNITY.

13. ACCORDING TO US TREASURY OFFICIALS BRAZIL IS SUBSIDIZING ITS SOY OIL EXPORTS TO THOSE MARKETS AND WILL TAKE A GOOD SHARE OF THOSE MARKETS FROM THE US PROVIDED THERE IS NO

OPPOSITION. END UNCLASSIFIED SECTION.

BEGIN LIMITED OFFICIAL USE SECTION

14. EMBASSY COMMENTS: AGATTACHE JUST BACK FROM EXTENSIVE VISIT TO SOYBEAN REGIONS REPORTS EXCELLENT CROP, HARVESTING OF WHICH STARTS NEXT WEEK. CROP ESTIMATED AT 11.3 MILLION TONS.

15. CONSENSUS OF FARMERS, COOP LEADERS AND EXPORTERS IS THAT GOB WILL CERTAINLY WANT TO EXPORT AS MUCH BEANS, MEAL AND OIL AS POSSIBLE AFTER DOMESTIC CONSUMPTION IS TAKEN CARE OF.

16. ICM TAX GIVES BRAZIL DISADVANTAGE OF AROUND US\$12.00 PER LIMITED OFFICIAL USE

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PAGE 03 BRASIL 01798 02 OF 02 272037Z

TON BASIS FOB AND IF WORLD MARKET PRICES LOWER THAN AROUND US\$178 PER TON LOGICAL EXPORT INCENTIVE WOULD BE TO WAIVE PART OR ALL OF ICM.

17. ICM IMPORTANT SOURCE OF REVENUE FOR STATE AND MOST COULD NOT DO WITHOUT SUCH INCOME.

18. AS ESTADO DO S. PAULO ARTICLE INDICATES--WHICH SUPPORTS RUMORS IN INTERIOR--FEDERAL GOVERNMENT MIGHT (HAVE TO) COMPENSATE FOR ICM TAX LOSS TO STATES. POLITICAL CONSIDERATIONS MAY STIMULATE SUCH MOVE.

19. SINCE A NEW GENERATION OF PROSPEROUS FARMERS HAS DEVELOPED OVER PAST YEARS THANKS TO SOYBEAN BOOM, POLITICIANS AND ADMINISTRATION MIGHT TAKE INTO ACCOUNT THAT FOR THE FIRST TIME A RATHER INDEPENDENT RURAL VOTE EMERGED WHICH, AS IN THE US, MAY EXPRESS ITS DISPLEASURE OVER FARM COMMODITY PRICES IN VOTING FOR OPPOSITION PARTY, PAYING ONLY SECONDARY ATTENTION TO OTHER ISSUES.

20. US OF COURSE WILL BE POINTED TO BY MANY AS REASON FOR DECLINE IN WORLD MARKET PRICES FOR FARM PRODUCTS, IF AND WHEN SUCH OCCURS.

21. HOWEVER AT THIS MOMENT BOTH FARMERS, COOP LEADERS AND EXPORTERS RATHER RELAXED ABOUT OUTLOOK FOR PRICES ON WORLD MARKET, BELIEVING THAT AFTER THE HECTIC YEARS 1972-75 STABILITY DOMINATES SCENE ON WORLD MARKET, WHICH MAY EXPLAIN GOB'S INACTION AS NOTED IN ESP EDITORIAL. END LIMITED OFFICIAL USE SECTION.  
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## Message Attributes

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**Copy:** SINGLE  
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**Decaption Date:** 01 JAN 1960  
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**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006